

## Message Text

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ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 ACDA-07 SSO-00 NSCE-00 INRE-00  
USIE-00 CIAE-00 DODE-00 PM-04 H-01 INR-07 L-03  
NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 AID-05  
COME-00 EB-07 FRB-03 TRSE-00 XMB-02 OPIC-03  
LAB-04 EPG-02 SIL-01 OMB-01 IGA-02 STR-04 CEA-01  
EURE-00 /107 W

-----054502 141752Z/41

O R 141714Z JUL 77  
FM AMEMBASSY LONDON  
TO SECSTATE WASHDC IMMEDIATE 6123  
INFO AMEMBASSY BONN  
AMEMBASSY BRUSSELS  
AMEMBASSY COPENHAGEN  
AMEMBASSY DUBLIN  
USMISSION GENEVA  
AMEMBASSY LUXEMBOURG  
AMEMBASSY PARIS  
AMEMBASSY THE HAGUE  
USMISSION NATO  
USNMR SHAPE  
AMCONSUL BELFAST  
AMCONSUL EDINBURGH

C O N F I D E N T I A L SECTION 01 OF 02 LONDON 11616

USEEC ALSO FOR EMBASSY

USOECD ALSO FOR EMBASSY

E.O. 11652: GDS  
TAGS: ELAB, PINT, UK  
SUBJECT: TUC-GOVERNMENT BREAKDOWN ON PAY BUT THE  
AGONIZING CONTINUES

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REF: (A) LONDON 11237, (B) LONDON 11557

SUMMARY: A CENTRAL, VITAL FEATURE OF THE SOCIAL  
CONTRACT BETWEEN THE TRADE UNIONS AND THE GOVERNMENT IS  
THAT IN RETURN FOR ECONOMIC AND SOCIAL BENEFITS, THE  
UNIONS AFFILIATED TO THE TUC WILL PRACTICE WAGE

RESTRAINT. LAST NIGHT, AFTER THE UNIONS AND THE GOVERNMENT FAILED TO AGREE TO A THIRD YEAR OF SUCH RESTRAINT, THE GOVERNMENT INDICATED THAT IT IS PREPARING A STATEMENT ON PAY, PRICES, AND TAX CHANGES--RATHER THAN A WHITE PAPER AS ORIGINALLY EXPECTED--WHICH IS THEN EXPECTED TO FORM THE BASIS OF A CONFIDENCE VOTE, PROBABLY NEXT WEDNESDAY, JULY 20. THE TUC LEADERSHIP INDICATED TO PRIME MINISTER CALLAGHAN AND HIS MINISTERS THAT IT WAS PREPARED TO STAND BY ITS COMMITMENT TO ADHERE TO ITS STAGE II OBLIGATIONS, BUT THERE IS FEAR THAT SOME OF THESE AGREEMENTS MAY UNRAVEL. THE GOVERNMENT AND THE UNIONS WILL UNDOUBTEDLY PLACE THE BEST POSSIBLE GLOSS ON THESE EVENTS, INCLUDING A REAFFIRMATION OF THEIR PARTNERSHIP. THERE IS NOW LITTLE DOUBT, HOWEVER, THAT THE GOVERNMENT HAS BEEN DEALT A SERIOUS POLITICAL BLOW WHICH COULD SHORTEN ITS LIFE EXPECTANCY. END SUMMARY.

1. LAST NIGHT, IN WHAT THE "DAILY EXPRESS" DESCRIBED AS "CALLAGHAN'S WAKE," THE TUC LEADERS, LED BY TUC GENERAL SECRETARY LEN MURRAY MET WITH PRIME MINISTER JAMES CALLAGHAN, AND OTHER MINISTERS TO HEAR THE GOVERNMENT INFORM THEM THAT SINCE NO AGREEMENT BETWEEN THE TWO PARTIES COULD BE REACHED ON A THIRD YEAR OF PAY RESTRAINT, IT WOULD HAVE TO SPELL OUT ITS OWN POSITION ON PAY, PRICES, AND TAXES IN WHAT WAS INITIALLY EXPECTED

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TO BE A WHITE PAPER TO BE PRESENTED IN PARLIAMENT TOMORROW (JULY 15), BY THE CHANCELLOR OF THE EXCHEQUER, DENIS HEALEY. AFTER THE CABINET MET THIS MORNING, HOWEVER, SHARP DIFFERENCES OF APPROACH ON PAY--AND PERHAPS OTHER MATTERS--EMERGED AND IT WAS DECIDED THAT MR. HEALEY WOULD MAKE A STATEMENT TO THE COMMONS TOMORROW INSTEAD. THIS IS TO BE FOLLOWED BY A SPECIAL DEBATE IN THE COMMONS NEXT WEEK, WHICH WILL MAKE GOVT. ECONOMIC POLICY AN ISSUE OF CONFIDENCE.

2. IT BECAME VERY CLEAR, PARTICULARLY AFTER JONES' BITTER DEFEAT BY HIS TRANSPORT AND GENERAL WORKERS CONFERENCE (REF A) AND THE TOTAL DISARRAY IN THE TUC TOP LEADERSHIP OVER PAY POLICY (REF B) THAT NO DEAL WITH THE GOVERNMENT IS POSSIBLE FOR A THIRD YEAR AFTER THE CURRENT PAY LIMITS EXPIRE ON JULY 31. THE TUC LEADERSHIP TOLD THE GOVERNMENT LEADERS THAT THEY WERE STILL COMMITTED TO STAGE II RULE THAT THERE MUST BE A 12 MONTH GAP BETWEEN PAY SETTLEMENTS, WHICH IF ADHERED TO WOULD PREVENT A HEADLONG RUSH TO TOTALLY UNFETTERED BARGAINING. HOWEVER, IT IS VERY DIFFICULT TO BE SANGUINE OVER THE TUC'S ABILITY TO HOLD THE LINE,

PARTICULARLY AGAINST SOME OF THE TOUGHER, MORE DEMANDING UNIONS WHICH ARE CHAMPING AT THE BIT TO SHAKE EVEN CURRENTLY AGREED RESTRAINTS.

3. BUT JUST AS THERE IS DISARRAY WITHIN THE TRADE UNIONS OVER PAY POLICY, THERE IS ALSO A SPLIT WITHIN THE CABINET OVER APPROACH TO IT. THAT IS PERHAPS WHY A WHITE PAPER EXPECTED TOMORROW HAS BEEN TRANSFORMED

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ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 ACDA-07 EURE-00 INRE-00 SSO-00  
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AID-05 COME-00 EB-07 FRB-03 TRSE-00 XMB-02  
OPIC-03 LAB-04 EPG-02 SIL-01 OMB-01 IGA-02 STR-04  
CEA-01 /107 W  
-----054489 141752Z /42

O R 141714Z JUL 77

FM AMEMBASSY LONDON

TO SECSTATE WASHDC IMMEDIATE 6124

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

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C O N F I D E N T I A L SECTION 02 OF 02 LONDON 11616

INTO A STATEMENT TO BE MADE BY THE CHANCELLOR INSTEAD.  
WE TALKED WITH SECRETARY OF STATE FOR EMPLOYMENT  
ALBERT BOOTH TODAY, IMMEDIATELY AFTER HIS CABINET  
MEETING THIS MORNING, AND HE EXPLAINED THAT THE DOVES

IN THE CABINET, WHOM HE LEADS, DO NOT WANT THE GOVERNMENT TO LAY DOWN RIGID NORMS (WHICH IT WOULD THEN PROCEED TO DO ALL IN ITS POWER TO GET THE UNIONS TO ADHERE TO AFTER JULY 31). HE SAID THAT THE HAWKS

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LED BY THE CHANCELLOR, WILL WISH TO LAY DOWN THESE NORMS (PAY SETTLEMENTS WHICH REMAINED WITHIN SINGLE FIGURES) AND USE WHATEVER POWERS THE GOVERNMENT HAS, SHORT OF STATUTORY CONTROL, TO ENFORCE THEM. BOOTH BELIEVES THIS POLICY WOULD NOT GET THE TUC'S SUPPORT AND HE AND THE OTHER DOVES BELIEVE THAT IT IS ESSENTIAL, FIRST, TO SUPPORT THE TUC LEADERSHIP IN ITS RESOLVE TO ADHERE TO STAGE II. THIS, HE SAID, WAS BASIC. THEN, WITH REGARD TO POST-PHASE II WAGE SETTLEMENTS, THE GOVERNMENT SHOULD DEAL WITH EACH CASE BY CASE, RATHER THAN LAY DOWN RIGID NORMS. HE BELIEVES FLEXIBILITY WOULD ALLOW RESOLUTION OF THE MORE DIFFICULT WAGE SETTLEMENTS, BE ACCEPTABLE TO THE TRADE UNIONS, AND MANAGEABLE WITHIN THE ECONOMIC CONSTRAINTS FACING THE GOVERNMENT. BOOTH ACCEPTED THE FACT THAT SOME UNIONS WOULD RECEIVE MORE THAN OTHERS BUT THE OVERALL INCREASE IN AVERAGE EARNINGS WOULD BE TOLERABLE.

4. THE AGONIZING WITHIN THE GOVERNMENT CONTINUES AND A MEETING OF THE CABINET TONIGHT IS SUPPOSED TO RESOLVE THE DEADLOCK BY THE CHANCELLOR AND TOMORROW'S STATEMENT BY MR. HEALEY SHOULD INDICATE WHETHER THE HAWKS OR THE DOVES HAVE WON. EITHER APPROACH IS FRAUGHT WITH PERIL FOR THE GOVERNMENT. A SPECIFIC FIGURE MAY ALIENATE THE UNIONS AND A FLEXIBLE APPROACH COULD BECOME THE MERE PRETENSE FOR A PAY POLICY. BUT NOTHING CAN HIDE THE FACT THAT THE GOVERNMENT'S FAILURE TO OBTAIN AN AGREEMENT WITH THE UNIONS ON A THIRD STAGE WAGE RESTRAINT IS A CLEAR BLOW TO THE SOCIAL CONTRACT, AND TO THE GOVERNMENT'S POLITICAL HOPES TO REMAIN IN POWER.

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